

REPORT OF
FINANCIAL EXAMINATION

GREATER MISSOURI EDUCATIONAL TRUST

AS OF
JUNE 30, 2004



STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

SCOPE OF EXAMINATION.....	1
Period Covered.....	1
Procedures.....	2
COMMENTS PREVIOUS EXAMINATION.....	2
HISTORY	6
General.....	6
Capital Stock.....	6
Dividends.....	6
Management.....	6
Conflict of Interest.....	8
Corporate Records	8
Acquisitions, Mergers and Major Corporate Events.....	9
Surplus Debentures	9
SERVICE PROVIDERS.....	10
FIDELITY BOND AND OTHER INSURANCE	12
EMPLOYEE BENEFITS.....	12
INSURANCE PRODUCTS AND RELATED PRACTICES	12
Territory and Plan of Operation.....	12
Policy Forms and Underwriting.....	12
Health Insurance Coverage.....	13
Life Insurance Coverage.....	13
Accidental Death and Dismemberment Coverage.....	14
Advertising and Sales Materials	14
Treatment of Policyholders.....	14
REINSURANCE.....	14
Assumed.....	14
Ceded	15
ACCOUNTS AND RECORDS.....	16
FINANCIAL STATEMENTS	16
ASSETS	18
LIABILITIES AND MEMBERS' FUND BALANCE	18
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' FUND BALANCE.....	18
NOTES TO FINANCIAL STATEMENTS.....	19
EXAMINATION CHANGES	19
GENERAL COMMENTS OR RECOMMENDATIONS	19
SUBSEQUENT EVENTS	20

ACKNOWLEDGMENT.....	21
VERIFICATION.....	21
SUPERVISION.....	21

December 21, 2004
St. Louis, MO

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Mr. Lakin:

In accordance with your financial examination warrant, a financial examination has been made of the records, affairs and financial condition of the

Greater Missouri Educational Trust

also referred to as "GMET" or as the "Association." The examination was conducted at the Association's third-party administrator's office at 501 North Broadway, Suite 500, St. Louis, Missouri 63101, telephone number (314) 982-5623. This examination began on November 22, 2004, and concluded December 21, 2004.

SCOPE OF EXAMINATION

Period Covered

The prior financial examination of the Greater Missouri Educational Trust was performed as of December 31, 2000.

The current financial examination covers the period from January 1, 2001, through June 30, 2004. This examination also included material transactions and/or events occurring after June 30, 2004.

Procedures

This examination was conducted using the guidelines set forth in applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri.

The workpapers of the Association's independent auditors were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

COMMENTS PREVIOUS EXAMINATION

Comment: Conflict of Interest

Although not required by statute, it would be a prudent business practice for the officers and directors of the Association to complete conflict of interest disclosure statements on an annual basis.

Response:

“Conflict of Interest statements were executed by all Members of GMET’s Board of Directors in mid-2001. No further statements have been executed, since current practice is to document resolutions, Board votes, etc., in order to make a matter of public record any potential conflicting activities or activities in the Board Member’s self-interest.”

Current findings:

Although the minutes document the actions of the Board and of individual members, it is again recommended that the Association require its officers and directors to complete conflict of interest statements on an annual basis.

Comment: History-Subsequent Event

The Trust is directed to submit its May 31, 2001, financial statement to the Department of Insurance by June 15, 2001. Immediate action will be required to bring the fund balance to equal the fund balance stated in the projection submitted to the Department of Insurance in October 1999, if this is not achieved through normal operations by May 31, 2001.

It is recommended that the Trust require members to increase the amount of their letter of credit to equal their portion of the current withdrawal liability, plus 5%, which will allow for fluctuations that may occur. In addition, the letters of credit should be amended to allow the Missouri Department of Insurance to draw on the letters of credit if the Trust were to experience cash flow deficiencies making it unable to pay claims in the normal course of business.

Response:

“GMET’s formal response to findings of the last examination committed to elimination of the deficit in its Fund Balance by July 1, 2002. At that time, \$3.8 Million had been collected from members in order to fund the shortfall in IBNR liability. As reported to Messrs. Blume and Rehagen at the Department on a monthly basis since that time, the Trust has maintained a positive fund balance which as of the close of September, 2004 stood at \$1.4 Million.

“Pursuant to GMET’s response to prior findings dated June 25, 2001, the Trust requested and received release from the letters of credit requirement.”

Current findings:

The Association reported a positive fund balance of over \$1 million for the fiscal years ending June 30, 2003 and June 30, 2004. Association members are no longer required to maintain letters of credit.

Comment: Reinsurance

It was determined that the reinsurance contract with Legion Insurance Company does not contain an insolvency clause that states that the reinsurer would not be relieved of its obligations in the event of the insolvency of the Association. It is recommended that the agreement be amended to include this provision.

Response:

“Pursuant to prior findings, GMET has negotiated the removal of insolvency clauses in its Stop Loss contracts. This practice has continued to the current Plan Year.”

Current findings:

As noted in the Reinsurance section of the report, the Association is again advised to amend its reinsurance policy to contain an appropriate insolvency clause.

Comment: Cash

It is recommended that the Association update its authorized check signature list on file with Union Planters Bank to include only the persons currently authorized for such responsibilities.

It is recommended that the Association adopt formal procedures requiring at least one representative of the Association to review and approve checks of large dollar amounts before they are released by the third party administrator. It is further recommended that the Association implement a control procedure requiring a representative of the Association review all checks issued directly to the third party administrator before they are presented in order to help avoid any conflicts.

Response:

“Beginning in July 2001, the Chairman of GMET authorized payments to the TPA on a monthly basis. Concurrently a policy was established whereby the Chairman, Vice-Chairman or Secretary of GMET reviewed the weekly check registers from the administrator (regardless of the amount involved in any individual payment).

“Since the GMET’s Secretary was a full-time employee of North American Health Plans, Inc., these practices were revised as of July 1st, 2004 in order to avoid potential conflict of interest. As of that time, the review/authorization responsibility was vested in GMET’s Chief Financial Officer.”

Current findings:

The account at Union Planters Bank was closed in August of 2004. The Chief Financial Officer of the Association reviews all checks on a weekly basis.

HISTORY

General

Greater Missouri Educational Trust was formed in July 1991, under the provisions of Chapter 537 RSMo (Risk Management for Public Entities) for the purpose of providing health and welfare benefits for eligible and participating employees of members of the Association. Members of the Association consist of school districts in the State of Missouri. At June 30, 2004, there were twenty-two member school districts.

Capital Stock

The Association is a not-for-profit entity and has no capital stock.

Dividends

GMET has not declared or paid any dividends since the inception of the Association.

Management

A Board of Directors consisting of an employee from each member school district manages the affairs of the Association. Directors serving at June 30, 2004, were as follows:

<u>District</u>	<u>Representative</u>
Advance R-IV	Mike Redman
Bell City R-II	Rhonda Niemczyk
Bloomfield R-XIV	Shelia Perry
Butler R-V	Jim Horton
Chaffee R-II	Arnold Bell
Clarksburg C-2	John Thompson
Cooter R-4	William Crowder

Delta R-V	Tom Allen
East Prairie R-II	Scott Downing
Kelso C-7	David Newell
Leopold R-III	Robert Turner
New Madrid Co. R-I	Mike Barnes
North Pemiscot Co. R-1	Keith Henke
Oran R-III	Mitch Wood
Pemiscot R-III	Anthony Hartsfield
Potosi R-III	Randy Davis
Scott City R-I	Diann Bradshaw
Scott County Central	JoAnne Northern
Scott County R-IV	Don Moore
Three Rivers Community College	George Jarboe
Woodland R-IV	Dennis Parham
Zalma R-V	Darryl Sauer

Ex-officio

Roger Tatum, Retired Superintendent, Scott City R-I
Ray Shoaf, Retired Superintendent, Scott County Central

The Board elects a chairman and a vice-chairman. Terms of office are two years, with the vice-chairman succeeding the chairman upon the chairman's retirement. The officers serving at June 30, 2004 were as follows:

Chairman	Mike Barnes	New Madrid County R-I
Vice-Chairman	Tom Allen	Delta R-V

The chairman and vice-chairman, along with five directors elected by majority vote of the Board and the ex-officio directors, comprise the Association's Executive Committee. The Executive Committee is responsible for administering the operations of the Association. The members of the Executive Committee at June 30, 2004 were:

<u>Name</u>	<u>District</u>
Mike Barnes, Chairman	New Madrid Co. R-1
Tom Allen, Vice-Chairman	Delta R-V
Diann Bradshaw	Scott City R-1

Mike Redman
Tom Allen
Keith Henke
George Jarboe
Roger Tatum
Ray Shoaf

Advance R-IV
Delta R-V
North Pemiscot Co. R-1
Three Rivers Community College
Ex-officio
Ex-officio

Conflict of Interest

Chapter 537 RSMo (Risk Management for Public Entities) does not require officers or directors to complete conflict of interest statements. Board members completed conflict of interest statements in 2001. No conflict of interest statements have been completed since then. The Association maintains that its policy of documenting resolutions, Board minutes and related items obviates the need for requiring conflict of interest statements. Although the minutes of Board meetings document the actions of the Board, the Association should require its directors and board members to complete conflict of interest statements on an annual basis.

Corporate Records

A review was made of the Articles of Association, the Bylaws and the Trust Agreement. In August, 2002, the Association adopted the Third Amended and Restated Trust Agreement and the Second Amended Bylaws of Greater Missouri Educational Trust. Both actions were duly approved by the Board of Directors.

The Board and Executive Committee minutes were reviewed for the period under examination. The minutes appeared to properly document applicable corporate events and transactions. The minutes do not indicate that the Board reviewed and accepted the Missouri Department of Insurance Report of Financial Examination as of December 31, 2000. The Board should review and approve the Report and document such action in the minutes.

Acquisitions, Mergers and Major Corporate Events

There have been no acquisitions or mergers during the period under examination. The major corporate event during the period has been the change in the Association's fund balance. At the prior examination, the Association was experiencing continuing fund balance deficits. Since then the Association has been submitting financial statements to MDI on a monthly basis to facilitate monitoring of the Association's financial condition. At June 30, 2003 the Association reported a positive fund balance. The Association reported a positive fund balance again at June 30, 2004.

Surplus Debentures

The Trust has not issued any surplus debentures.

SERVICE PROVIDERS

Prior to July 1, 2004, GMET had an agreement with North American Administrators, Inc., a subsidiary of North American Health Plans, Inc., to provide various insurance-related accounting and administrative services. North American Administrators is licensed by the Missouri Department of Insurance as a third-party administrator. The services provided by North American Administrators included: claims administration and payment; premium billing and processing; monthly claims accounting; solicitation of reinsurance agreements; preparation of employee benefit plan statements; monthly financial reporting; and other administrative services.

For the fiscal year ending June 30, 2004, GMET paid North American Administrators an administrative fee totaling \$275,708. This amount represents 3.19% of member contributions for the year.

Effective July 1, 2004, GMET entered into an agreement with Marsh Advantage America ("Marsh"), a subsidiary of Seabury & Smith, Inc. Seabury & Smith, Inc., is licensed by the Missouri Department of Insurance as a third-party administrator. Under the agreement, Marsh provides the following services: claims processing and payment; benefits explanations; regulatory reporting and compliance; records maintenance; and, periodic progress reports.

GMET and HealthLink, Inc., a Missouri-licensed health maintenance organization, are parties to a health services agreement. Under the agreement, GMET beneficiaries are provided medical coverage by HealthLink and have access to two health care provider services networks maintained by HealthLink and an affiliate PPO (preferred provider organization), Preferred Care. The HealthLink network serves central, eastern and southern Missouri and select counties in Illinois, Iowa, Indiana, Tennessee and Arkansas. The Preferred Care network serves western and northern Missouri and three counties in Kansas. HealthLink also provides utilization review services under the agreement.

For the fiscal year ending June 30, 2004, GMET paid HealthLink premiums totaling \$64,667 for participants in the HealthLink network and \$10,944 for participants in the Preferred Care network. The total amount paid to HealthLink represents less than 1% of member contributions for the year.

GMET also has a service agreement with Health Choice, LLC, a Tennessee-based health services provider. Under the agreement, GMET beneficiaries have access to a network of health service providers established by Health Choice in parts of Tennessee, Arkansas and Mississippi. For the fiscal year ending June 30, 2004, GMET paid Health Choice fees totaling \$6,128.

FIDELITY BOND AND OTHER INSURANCE

At June 30, 2004, GMET's third-party administrator, North American Health Plans, had aggregate coverage of \$2,000,000 for employee dishonesty and \$10,000,000 for errors and omissions. The Association's third-party administrator as of July 1, 2004, Marsh, has financial crime coverage of \$10,000,000 and professional liability coverage of \$10,000,000. For an operation with assets and operating revenues similar in size to GMET, the National Association of Insurance Commissioners recommend fidelity coverage of \$150,000.

EMPLOYEE BENEFITS

The Association does not have any employees. All services are provided through contractual agreements with outside parties.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Greater Missouri Educational Trust (GMET) is a self-insured trust licensed by the Missouri Department of Insurance under RSMo Sections 537.600 through 537.650 (Sovereign Immunity). Membership in GMET is limited to public school districts located within the state of Missouri. As of June 30, 2004, there were twenty-two participating members of GMET.

Policy Forms and Underwriting

GMET offers health, life and accidental death and dismemberment insurance coverage to its members. Prospective members submit an application form which is used by the Association's third-party administrator for underwriting purposes. The final determination to accept new members is made by the Board of Directors.

Health Insurance Coverage

GMET offers two health insurance plan options, designated Plan A and Plan B. Each plan provides unlimited lifetime benefits with an annual limit of \$1,000,000 per covered person. For most services, Plan A pays 90% of covered charges incurred within the network and 70% of covered charges incurred outside of the network after satisfying the deductible. Plan B pays 80% of covered charges incurred in-network and 60% of covered charges incurred out-of-network after satisfying the deductible. The Plan A deductible is \$500 per person and \$1,000 per family unit each calendar year. The Plan B deductible is \$1,000 per person and \$2,000 per family unit each calendar year. Plan A has a maximum out-of-pocket amount per calendar year of \$1,500 per person or \$3,000 per family unit in-network and \$3,000 per person or \$6,000 per family unit out-of-network. Plan B's maximum out-of-pocket amount is \$3,000 per person or \$6,000 per family unit in-network and \$5,000 per person or \$10,000 per family unit out-of-network.

Life Insurance Coverage

The Association offers life insurance to members' employees under a group contract issued by Prudential. A non-contributory plan is provided to all employees with a benefit amount determined by each member school district. Benefit amounts range from \$5,000 to \$25,000. An optional contributory plan is also offered to member's employees with benefit amounts available up to a maximum of five times an employee's annual earnings or \$500,000. A contributory plan is also offered to employees who retired on or before July 1, 2004. Employees retiring after July 1, 2004 are not eligible for life insurance coverage.

Accidental Death and Dismemberment Coverage

The Association's group contract with Prudential also provides accidental death and dismemberment coverage. The coverage is provided to all employees on a non-contributory basis. Benefits are payable according to the contract schedule.

Advertising and Sales Materials

Because membership in the Association is restricted to Missouri public school districts, advertising is limited. The Association's Proposal Form, which is used as an advertising tool, includes a brief history of the Association, a discussion of self-funding plans, details about the Association's third-party administrator and a summary of plan benefits.

Treatment of Policyholders

The Association is not required under Chapter 537 RSMo to maintain a policyholder complaint log. The Association's bylaws outline the member appeals process. Although not required by Chapter 537 RSMo, the Association began keeping a log of appeals as of July 1, 2004.

REINSURANCE

Assumed

None

Ceded

Specific and Aggregate Excess Loss Coverage

For the fiscal year ending June 30, 2004, the Association had obtained specific excess loss coverage from Standard Security Life Insurance Company of New York. The policy provided coverage of \$900,000 in excess of \$100,000 per person. The Association also had an aggregate excess loss policy with Standard Security Life Insurance Company of New York. This policy provided up to \$1,000,000 of coverage for aggregate losses in excess of the minimum aggregate attachment point of \$10,440,016.

Beginning July 1, 2004, the Association obtained specific excess loss coverage from Sun Life Assurance Company of Canada. The policy provides coverage of \$900,000 in excess of \$100,000 per person. The Association also obtained aggregate excess loss coverage from Sun Life Assurance Company of Canada. The maximum aggregate benefit is \$1,000,000 after a minimum aggregate deductible of at least \$9,413,187.

The reinsurance policy does not contain an insolvency clause stating that the reinsurer is not relieved of its obligations if the Association becomes insolvent. It is recommended that the reinsurance agreement with Sun Life Assurance Company of Canada be amended to include such an insolvency provision

ACCOUNTS AND RECORDS

Through June 30, 2004, the Association's financial statements were prepared monthly by the third-party administrator, North American Health Plans, Inc. Beginning July 1, 2004, the monthly financial statements are prepared by GMET's chief financial officer, Paul Northington.

Financial statements are audited annually by Swink, Fiehler and Company, P.C., Certified Public Accountants. The June 30, 2004 claims liability was reviewed by Dennis Nilges of Wolfe, Nilges, Nahorski. A review was made of the last CPA audit workpapers. These workpapers were utilized in the course of the examination as deemed appropriate.

At June 30, 2004 the Association had funds on deposit at First Community Bank of Poplar Bluff, Missouri significantly in excess of the Federal Deposit Insurance Corporation ("FDIC") limits. It is recommended that the Association take precautionary measures to safeguard the bank account balances in excess of FDIC limits.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of GMET as of June 30, 2004 and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual financial statement item.

ASSETS

Cash	\$ 2,522,403
Insurance Deposits	55,000
Stop-loss Receivables	56,854
Receivable from Members	<u>6,662</u>
Total Assets	<u>\$ 2,640,919</u>

LIABILITIES AND MEMBERS' FUND BALANCE

Claims Payable and Reserve	<u>\$ 1,620,000</u>
Total Liabilities	\$ 1,620,000
Members' Fund Balance	<u>\$ 1,020,919</u>
Total Liabilities and Members' Fund Balance	<u>\$ 2,640,919</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' FUND BALANCE

Revenues	
Membership contributions	\$ 8,636,114
Stop loss recoveries	132,888
Interest income	<u>40,462</u>
Total Income	\$ 8,809,464
Expenses	
Claims for health benefits	\$ 7,993,949
Group insurance premiums	791,356
Administrative and agency fees	275,708
Actuary, legal and audit fees	41,502
Bank fees and other expenses	<u>7,098</u>
Total Expenses	\$ 9,109,613
Net Income/(Loss)	<u>\$ (300,149)</u>
Change in Members' Fund Balance	
Beginning Fund Balance	\$ 1,321,068
Net Loss	\$ <u>(300,149)</u>
Ending Fund Balance	<u>\$ 1,020,919</u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS OR RECOMMENDATIONS

Conflict of Interest

The Association is again advised to require annual conflict of interest disclosure statements from its officers and directors. Although not mandated by statute, requiring an annual conflict of interest disclosure provides protection to the Association and its members.

Corporate Records

The Board meeting minutes do not indicate the Board's review and approval of the Report of Financial Examination as of December 31, 2000. It is recommended that the Board review and approve all Examination Reports and so indicate in the meeting minutes.

Accounts and Records

At June 30, 2004 the Association had funds on deposit at First Community Bank of Poplar Bluff, Missouri significantly in excess of the Federal Deposit Insurance Corporation ("FDIC") limits. It is recommended that the Association take precautionary measures to safeguard the bank account balances in excess of FDIC limits.

Reinsurance

The Association's reinsurance contract with Sun Life Assurance Company of Canada does not include an insolvency clause stating that the reinsurer is not relieved of its obligation in the event of GMET's insolvency. It is recommended that the reinsurance agreement be amended to include this provision.

SUBSEQUENT EVENTS

On June 30, 2004, GMET terminated its third-party administration agreement with North American Health Plans, Inc. On July 1, 2004, Marsh Advantage America, a division of Seabury & Smith, Inc., became GMET's new third-party administrator. On July 1, 2004, Paul Northington became chief financial officer of GMET.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors and officers of the Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Association, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this ____ day of _____.
My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley,
CFE, FLMI, CIE, AIAF, ARe
Audit Manager
Missouri Department of Insurance

